



National
Foreign
Assessment
Center

Afghanistan: The Continuing Economic Slide (U)

An Intelligence Assessment

*Information available as of 3 August 1981
has been used in the preparation of this report*

SECRET
FNAI-1124
August 1981

Afghanistan:

The Continuing Economic Slide ()

The Afghan economy, already depressed before the Soviet invasion in December 1979, has been further disrupted by continuing hostilities and subsequent exodus of 20 percent of the population. The Babrak government recognizes the country's serious economic problems, but political disarray at top levels of the government prevents the formulation of coherent economic policies and intermittent purges of the civil service reinforce bureaucratic inertia [word excised].

Subsistence farming and industrial activities continue in the face of labor and raw material shortages, frequent power blackouts and fuel rationing, but economic development plans and recommendations by Western advisers have fallen by the wayside. Activity in the commercial agricultural sector has been mixed, with modest gains in the production of fruit and vegetables, but with severe declines in cotton and sugar beets, the two leading commercial crops. As a result of the fighting, shortages and unemployment are widespread. Basic needs are being met by extended family groups that take care of their own indigent members. Largely cut off from its traditional Western suppliers, Kabul has become increasingly dependent on Moscow for supplies of food and petroleum products.

The military situation in Afghanistan makes an improvement in the economy unlikely any time soon. The government lacks both the popular support and the military force it needs to win effective control of much of rural Afghanistan. Insurgent attacks on road convoys have become increasingly effective, causing severe disruption to the transportation system. Even if its military problems disappeared, however, the government would still have difficulty coping with its economic problems.

**Afghanistan:
The Continuing Economic Slide (U)**

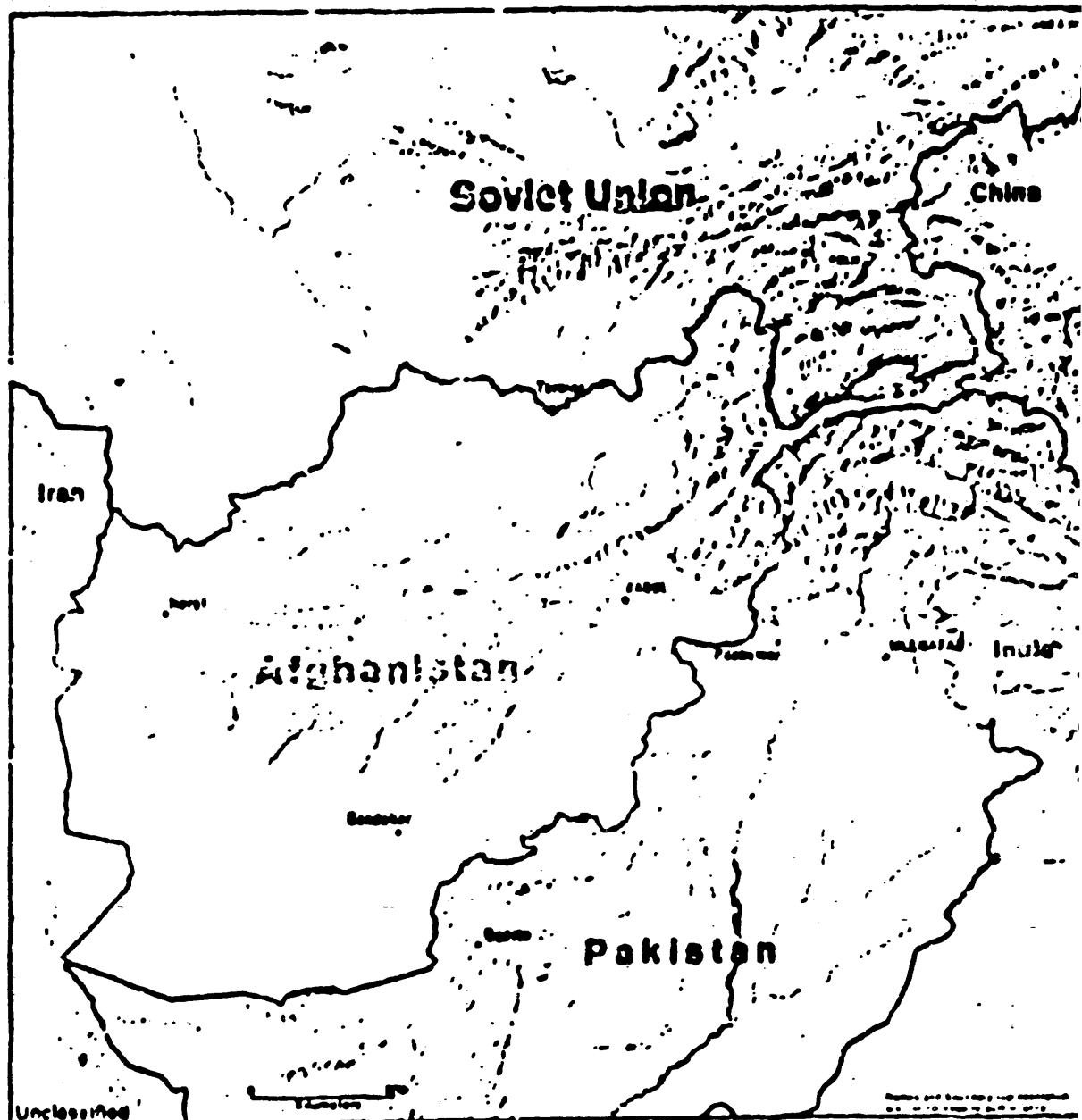
Key Judgments

The Afghan economy, already depressed before the Soviet invasion in December 1979, has been further disrupted by continuing hostilities and the subsequent exodus of 20 percent of the population. The Habrak government recognizes the country's serious economic problems, but political disarray at top levels of the government prevents the formulation of coherent economic policies, and intermittent purges of the civil service reinforce bureaucratic inertia.

Subsistence farming and industrial activities continue in the face of labor and raw material shortages, frequent power blackouts, and fuel rationing, but economic development plans and recommendations by Western advisers have fallen by the wayside. Activity in the commercial agricultural sector has been mixed, with modest gains in the production of fruits and vegetables, but with severe declines in cotton and sugar beets—the two leading commercial crops. As a result of the fighting, shortages and unemployment are widespread. Basic needs are being met by extended family groups that take care of their own indigent members. Largely cut off from its traditional Western suppliers, Kabul has become increasingly dependent on Moscow for supplies of food and petroleum products. (U)

The military situation in Afghanistan makes an improvement in the economy unlikely any time soon. The government lacks both the popular support and the military force it needs to win effective control of much of rural Afghanistan. Insurgent attacks on road convoys have become increasingly effective, causing severe disruption to the transportation system. Even if its military problems disappeared, however, the government would still have difficulty coping with its economic problems. (U)

Top



[first column]

Growing Domestic Problems in 1980

The Babrak government has failed on all fronts to garner domestic support and to move the economy toward modernization. It has also been unable to counter the pervasive perception that it is a Soviet puppet government. Babrak's claim that his is the first government in 50 years to allow religious freedom has not impressed a population that views the government as antireligious and equates Marxism and the USSR with atheism. The unpopularity of the Babrak government and the Soviet occupation were the driving forces behind the exodus of Afghans from the country last year. The flight greatly accelerated between March and September and by year end about 3 million Afghan refugees were living in India, Pakistan, and Iran [words excised.

Insurgent activities forced the Babrak government to back away from the agrarian reform program the Babrak and Amin regimes had pushed in 1978 and 1979. In part, Babrak did not want to further antagonize the handful of large landowners who have chosen to remain in the country. Besides cutting into production of commercial crops such as cotton, opposition to the program also reduced the supply of wheat and rice, the leading staple food crops. As a result, shortages of some food items worsened last year, and hoarding, which has always been a rural problem became widespread. Rationing was introduced in 1980 and included such basic commodities as bread and cooking oil.

[five lines excised]

[word excised] Although the supply of kerosene has improved since the end of 1980, major urban centers are still experiencing shortages of motor oil and diesel and jet fuel.

Another major problem for the government has been demonstrations by bazaar shopkeepers in Kabul who

[same page] [second column]

have economic as well as political reasons for their protests. They have been hurt by the general decline in economic activity, and government price controls have cut into their profit margins. [words excised]
[lines excised]

Political infighting within the Babrak government has disrupted the economy. The government installed by the Soviets is an unstable alliance of rival factions-Babrak's Parcham (Banner) and the Khalq (People's) of former Presidents Amin and Taraki patched together by Moscow in hopes that supporters of both factions in the military and the bureaucracy would work together. The major difference between the two groups is in the base of support; the Parchamists tend to attract members of the wealthy urban families, whereas the Khalqists concentrate on recruiting intelligent, poor, young people of both city and rural origins.

Soviet attempts to make the two groups work together have not succeeded. Infighting has grown more intense and Parchamist senior government officials fire their Khalqi subordinates at every opportunity. To make matters worse, the two factions have carried out assassinations of each other's top officials. As a result, the bureaucracy at lower levels remains ineffective.
[lines excised]

Economic Development

Most economic development programs have ground to a halt since the Soviet invasion. Although the Soviets claim satisfactory progress was made in 1980 on several of their projects, the suspension of bilateral aid from Western donors and loans from multilateral institutions has severely curtailed the pace of development. [words excised]

Afghanistan: The Continuing Economic Slide (1)

Growing Domestic Problems in 1980

The Babrak government has failed on all fronts to garner domestic support and to move the economy toward modernization. It has also been unable to counter the pervasive perception that it is a Soviet puppet government. Babrak's claim that his is the first government in 50 years to allow religious freedom has not impressed a population that views the government as antireligious and equates Marxism and the USSR with atheism. The unpopularity of the Babrak government and the Soviet occupation were the driving forces behind the exodus of Afghans from the country last year. The flight greatly accelerated between March and September, and by yearend about 3 million Afghan refugees were living in India, Pakistan, and Iran.

Insurgent activities forced the Babrak government to back away from the agrarian reform program the Taraki and Amin regimes had pushed in 1978 and 1979. In part, Babrak did not want to further alienate the handful of large landowners who have chosen to remain in the country. Besides cutting into production of commercial crops such as cotton, opposition to the program also reduced the supply of wheat and rice — the leading staple food crops. As a result, shortages of some food items worsened last year, and hoarding — which has always been a rural problem — became widespread. Rationing was introduced in 1980 and included such basic commodities as bread and cooking oil. (1)

Although the supply of kerosene has improved since the end of 1980, major urban centers are still experiencing shortages of motor oil and diesel and jet fuel. (1)

Another major problem for the government has been demonstrations by bazaar shopkeepers in Kabul, who

have economic as well as political reasons for their protests. They have been hurt by the general decline in economic activity, and government price controls have cut into their profit margins.

Political infighting within the Babrak government has disrupted the economy. The government installed by the Soviets is an unstable alliance of rival factions — Babrak's Parcham (Banner) and the Khalq (People's) of former Presidents Amin and Taraki — patched together by Moscow in hopes that supporters of both factions in the military and the bureaucracy would work together. The major difference between the two groups is in the base of support: the Parchamists tend to attract members of the wealthy urban families, whereas the Khalqists concentrate on recruiting intelligent, poor, young people of both city and rural origins.

Soviet attempts to make the two groups work together have not succeeded. Infighting has grown more intense, and Parchamist senior government officials fire their Khalqi subordinates at every opportunity. To make matters worse, the two factions have carried out assassinations of each other's top officials. As a result, the bureaucracy at lower levels remains ineffective.

Economic Development

Most economic development programs have ground to a halt since the Soviet invasion. Although the Soviets claim satisfactory progress was made in 1980 on several of their projects, the suspension of bilateral aid from Western donors and loans from multilateral institutions has severely curtailed the pace of development.

[lines excised]

Most Western aid technicians and officials have been pulled out of the country [words excised]
[lines excised]

Agriculture

The agricultural sector has suffered greatly since the invasion. A record number of landowners have fled the country, taking with them valuable machinery and financial and personal assets. New recipients under the land redistribution program, who had traditionally relied on credit from large landholders and moneylenders are finding it difficult to get loans from the government. In any event, many farmers are afraid to accept government credits, hearing they would be forced to fight against the insurgents as repayment for the loans. The Soviet-backed program to collective agriculture has all but failed, especially in rice and wheat production and as of mid-1981 the program was at a standstill.

Since fighting has sharply banned its access to rural areas, even the Babrak government probably does not have reliable crop data. Government data on food-grain production has always been suspect reflecting the propensity of farmers to falsify crop production data to avoid taxes, bartering and smuggling and traditional antagonism toward the central government. Since the Soviet invasion, Kabul's efforts to conceal economic deterioration has made the collection of reliable data even more difficult.

[same page, second column]

[paragraph excised]

Nevertheless Deputy Prime Minister Soltan Ali Keshtmand, in a speech to the nation last April, announced highly satisfactory results for agriculture in general last year and for grain production in particular. He estimated total foodgrain output in 1980 of 4.4 million tons compared to 4.2 million tons in 1979. At this level, which may be inflated, 1980 output would have come close to the 4.6 million ton target Kabul set in its 1980 development plan but would be lower than the 4.8 million tons harvested annually during 1975-78.

Commercial crops, which normally account for 10 percent of total arable land, appear to have had a mixed record. Production of fruits and vegetable increased moderately, but there were severe declines in cotton and sugar beet production, the two leading commercial crops. Many farmers growing cotton and sugar beets fled and irrigation facilities on which these crops depend heavily were destroyed or badly damaged in the fighting. [word excised]

[REDACTED]

Most Western aid technicians and officials have been pulled out of the country.

[REDACTED]

Agriculture

The agricultural sector has suffered greatly since the invasion. A record number of landowners have fled the country, taking with them valuable machinery and financial and personal assets. New recipients under the land redistribution program—who had traditionally relied on credit from large landholders and moneylenders—are finding it difficult to get loans from the government. In any event, many farmers are afraid to accept government credits, fearing they would be forced to fight against the insurgents as repayment for the loans. The Soviet-backed program to collectivize agriculture has all but failed, especially in rice and wheat production and as of mid-1981 the program was at a standstill. (c)

Since fighting has sharply limited its access to rural areas, even the Habrak government probably does not have reliable crop data. Government data on foodgrain production has always been suspect, reflecting the propensity of farmers to falsify crop production data to avoid taxes, bartering and smuggling; and traditional antagonism toward the central government. Since the Soviet invasion, Kabul's efforts to conceal economic deterioration has made the collection of reliable data even more difficult. (s)

Nevertheless Deputy Prime Minister Solian Ali Keshitmand, in a speech to the nation last April, announced highly satisfactory results for agriculture in general last year and for grain production in particular. He estimated total foodgrain output in 1980 of 4.4 million tons compared to 4.2 million tons in 1979. At this level—which may be inflated—1980 output would have come close to the 4.6-million-ton target Kabul set in its 1980 development plan but would be lower than the 4.8 million tons harvested annually during 1975-78. (c)

Commercial crops, which normally account for 10 percent of total arable land, appear to have had a mixed record. Production of fruits and vegetables increased moderately, but there were severe declines in cotton and sugar beet production—the two leading commercial crops. Many farmers growing cotton and sugar beets fled, and irrigation facilities, on which these crops depend heavily, were destroyed or badly damaged in the fighting. (c)

Industry

The government announced increased production in the textile, printing, and mining sectors but overall industrial production declined last year for the second consecutive year. The small industrial sector is plagued by abysmal labor productivity, a lack of competent technical and managerial personnel, and increasingly by shortages of raw materials and spare parts. Industry also faced frequent power blackouts and fuel rationing. Because industry contributes such a small share less than 15 percent to the gross domestic product, the industrial sector's performance was not a major factor in the overall performance of the economy.

Trade

The Soviet invasion has led to a sharp drop in the volume of commercial imports. The volume of imports from the West through Pakistan's ports, 50,000 to 100,00 tons monthly before the invasion, has been cut almost in half. Both the Karachi-Peshawar-Kabul road route and the Karachi-Quetta-Qandahar route, which are used to carry imported Western goods via Pakistan, are frequently blocked for days and have become extremely dangerous. [word excised]

Some countries are also experiencing difficulties in shipping goods to Afghanistan via Soviet ports at Nakhodka and Vostochnyy. Altogether there has been close to a 50 percent decline in commercial imports from non-Communist countries with a 24 percent drop in imports from the European Community alone during the first nine months of 1980.

Industry

The government announced increased production in the textile, printing, and mining sectors but overall industrial production declined last year for the second consecutive year. The small industrial sector is plagued by abysmal labor productivity, a lack of competent technical and managerial personnel, and increasingly by shortages of raw materials and spare parts. Industry also faced frequent power blackout and fuel rationing. Because industry contributes such a small share—less than 15 percent—to the gross domestic product, the industrial sector's performance was not a major factor in the overall performance of the economy. (U)

Trade

The Soviet invasion has led to a sharp drop in the volume of commercial imports. The volume of imports from the West through Pakistan's ports—50,000 to 100,000 tons monthly before the invasion—has been cut almost in half. Both the Karachi-Peshawar-Kabul road route and the Karachi-Quetta-Jandahar route, which are used to carry imported Western goods via Pakistan, are frequently blocked for days and have become extremely dangerous.

Some countries are also experiencing difficulties in shipping goods to Afghanistan via Soviet ports at Nakhodka and Vostochnyy. Altogether there has been close to a 50 percent decline in commercial imports from non-Communist countries, with a 23-percent drop in imports from the European Community alone during the first nine months of 1980. (U)

Natural gas is Afghanistan's largest single export item and accounts for roughly a third of total export earnings. Soviet geologists estimate Afghanistan's proved and probable gas reserves at about 5 trillion cubic feet. The gas deposits are concentrated in northern Afghanistan, about 100 kilometers from the Soviet border. Until 1980, the only production came from the Khawaja Gogerdak field, developed by the Soviets and opened in 1967. Between 1970 and 1974, production averaged about 94 billion cubic annually, climbed to a peak of 106 billion cubic feet by 1979.

Natural gas sales are expected to play a larger role in bilateral trade in the 1980s, given the onset of production in February 1980 from a new field at [word illeg] in northern Afghanistan. Production from this field, which was discovered in the early 1970s and developed with Soviet technical assistance, is expected to increase gas exports to about 100 billion cubic feet annually in the mid-1980s. Gas from the new field is piped by a 40 kilometer pipeline to Khawaja Gogerdak, where it joins the existing 109 kilometer pipeline to the Soviet border, to thwart possible insurgent attacks on the gasfields and pipelines and to ensure an uninterrupted flow of gas from Afghanistan the Soviets have given military production to the machines, a job made easier by the fields proximity to the Soviet border. (C)

Government Finances

[paragraph excised]

Receipts from import duties, the principal source of revenue for the government, virtually disappeared last year with the sharp curtailment in commercial activity. Insurgent activities along major roads caused a severe drop in government receipts from transport lanes. Indeed, the insurgents have been collecting

high toll fees from truckers daring enough to travel the partially interdicted roadways [lines excised]

[paragraph excised]

Kabul's foreign exchange reserves are in better shape, but the government is concerned about the \$109 million decline in reserves between yearend 1979 and March 1981, to \$101 million. Under normal circumstances, the March 1981 level of reserve would be sufficient to finance about eight months of imports. This ratio has almost certainly increased because cutbacks in commercial imports have reduced pressure on foreign exchange holdings. The reserve decline is partly the result of a sharp drop in the \$80-100 million in annual remittances from Afghans working in Iran and other Persian Gulf countries prior to the invasion. Also contributing to the decline has been the decision of Afghan private exporters to leave their foreign exchange earnings on deposit abroad, instead of remitting earnings to Afghanistan's central bank. (C)

[lines excised]

[word excised] Kabul's other liquid assets include \$465 million in gold (valued at current market prices) and \$17 million in Special Drawing Rights with the International Monetary Fund. (S)

Natural gas is Afghanistan's largest single export item and accounts for roughly a third of total export earnings. Soviet geologists estimate Afghanistan's proved and probable gas reserves at about 5 trillion cubic feet. The gas deposits are concentrated in northern Afghanistan, about 80 kilometers from the Soviet border. Until 1980, the only production came from the Khawaja Gingerdak field, developed by the Soviets and opened in 1967. Between 1970 and 1974, production averaged about 94 billion cubic feet annually, climbed to a peak of 106 billion cubic feet in 1975, but fell to 80 billion cubic feet by 1979. (v)

Natural gas sales are expected to play a larger role in bilateral trade in the 1980s, given the onset of production in February 1980 from a new field at Jarqatug in northern Afghanistan. Production from this field, which was discovered in the early 1970s and developed with Soviet technical assistance, is expected to increase gas exports to about 110 billion cubic feet annually in the mid-1980s. Gas from the new field is piped by a 30 kilometer pipeline to Khawaja Gingerdak, where it joins the existing 120-kilometer pipeline to the Soviet border. To thwart possible insurgent attacks on the gasfields and pipelines and to ensure an uninterrupted flow of gas from Afghanistan, the Soviets have given military protection to the facilities, a job made easier by the fields' proximity to the Soviet border. (v)

Government Finances

Receipts from import duties—the principal source of revenue for the government—virtually disappeared last year with the sharp curtailment in commercial activity. Insurgent activities along major roads caused a severe drop in government receipts from transport taxes. Indeed, the insurgents have been collecting

high toll fees from truckers daring enough to travel the partially interdicted roadways.

Kabul's foreign exchange reserves are in better shape, but the government is concerned about the \$109 million decline in reserves between year-end 1979 and March 1981, to \$101 million. Under normal circumstances, the March 1981 level of reserves would be sufficient to finance about eight months of imports. This ratio has almost certainly increased because cuts in commercial imports have reduced pressure on foreign exchange holdings. The reserve decline is partly the result of a sharp drop in the \$20-100 million in annual remittances from Afghans working in Iran and other Persian Gulf countries prior to the invasion. Also contributing to the decline has been the decision of Afghan private exporters to leave their foreign exchange earnings on deposit abroad, instead of remitting earnings to Afghanistan's central bank. (v)

Kabul's other liquid assets include \$46.5 million in gold (valued at current market prices) and \$17 million in Special Drawing Rights with the International Monetary Fund. (v)

Looking Ahead

As long as most of the remaining population is able to obtain close to present amounts of basic necessities, the Afghans will consider the present economic situation tolerable. Fuel and food shortages again this winter, however, would hurt urban dwellers, the government's main constituency, rural inhabitants would probably suffer little from these problems. (C)

Over the next year, developments in agriculture will likely test the government's staying power. Kabul is estimating this year's foodgrain output at [word illeg] million tons, with 2.4 million tons the target for wheat production (see table) [words excised]

[line excised]

[words excised]

If shortfalls occur, Afghanistan could finance the additional imports required, but prospects for transporting substantial amounts of wheat are uncertain at best, because of insurgent activities involving major road routes used to bring in Western goods. (C)

TRANSCRIPTION - ORIGINAL FOLLOWS

[same page, second column]

The military situation in Afghanistan makes an improvement in the economy unlikely. Insurgent attacks on road convoys have become increasingly effective, and in much of the countryside Kabul will be foreclosed from activating development projects and other programs, collecting taxes, or obtaining wheat and other agricultural products. The government lacks both the popular support and the military force it needs to win effective control of much of rural Afghanistan. [words excised]

[line excised]

[words excised]

Divided by bitter factionalism in the ruling party, and with much of the bureaucracy either inexperienced or disaffected, the government would have difficulty coping with its economic problems even were its economic problems to disappear. (C)

	1975	1976	1977	1978	1979*	1980*	1981
Total grains	4,744	4,750	4,875	4,775	4,210	4,400	5,000*
Of which							
Wheat	2,900	2,940	2,900	2,800	2,700	2,200	2,400*
Rice	451	457	440	440	414	180	

* Estimates. The U.S. Department of Agriculture, however, gives lower total grains estimates of 4.1 million tons for 1979 and 3.9 million tons for 1980.

* Government of Afghanistan's production targets.

This table is classified.

Looking Ahead

As long as most of the remaining population is able to obtain close to present amounts of basic necessities, the Afghans will consider the present economic situation tolerable. Fuel and food shortages again this winter, however, would hurt urban dwellers. The government's main constituency, rural inhabitants would probably suffer little from these problems. (1)

Over the next year, developments in agriculture will likely test the government's staying power. Kabul is estimating this year's foodgrain output at 5 million tons, with 2.4 million tons the target for wheat production. (see table 1)

If shortfalls occur, Afghanistan could finance the additional imports required, but prospects for transporting substantial amounts of wheat are uncertain at best, because of insurgent activities involving major road routes used to bring in Western goods. (1)

The military situation in Afghanistan makes an improvement in the economy unlikely. Insurgent attacks on road convoys have become increasingly effective, and in much of the countryside Kabul will be foreclosed from activating development projects and other programs, collecting taxes, or obtaining wheat and other agricultural products. The government lacks both the popular support and the military force it needs to win effective control of much of rural Afghanistan.

Divided by bitter factionalism in the ruling party, and with much of the bureaucracy either inexperienced or disaffected, the government would have difficulty coping with its economic problems even were its military problems to disappear. (1)